

SOCIAL SECURITY/MEDICARE/SDI TAXES PAID BY AN EMPLOYER

An employer may pay an employee's share of Social Security/Medicare (taxes imposed under the Federal Insurance Contributions Act - FICA) and/or State Disability Insurance* (SDI) without deduction from the employee's salary. The payments made by the employer on behalf of the employee may constitute additional wages, depending on the type of employer.

Household or Agricultural Employer

When a household or agricultural employer pays **Social Security and Medicare (FICA)** without deduction from their employee's wages, the additional amount **is not** considered an increase to the employee's wages when calculating the Unemployment Insurance (UI), Employment Training Tax (ETT) or SDI taxes.

When a household or agricultural employer pays **SDI** without deduction from the employee's wages, the additional amount **is** considered an increase to the employee's wages for payroll tax purposes and **is** subject to UI, ETT, and SDI.

Household and agricultural employers are not required to withhold Personal Income Tax (PIT) from wages. However, the amount the employer paid in **FICA and/or SDI** without deduction from the employee's pay is to be included as part of the employee's wages when reporting PIT wages. These amounts should be included on the W-2 and reported by the employee as taxable income on his or her personal income tax returns.

All Other Employers

When employers other than household or agricultural pay the employee's share of FICA and/or SDI without deducting it from the employee's wages, the employee's wages increase by the amount of FICA and/or SDI paid. The amount the employer paid is subject to UI, ETT and SDI, is reportable as PIT wages, is subject to PIT withholding, should be included on the W2, and reported by the employee as taxable income on their personal income tax returns.

Determining Total Subject Wages (Wages subject to UI, ETT, and SDI)

The following formula is used to calculate the total subject wages:

$$\text{Formula: } \frac{S}{(1 - R)} = W$$

S = Actual amount of salary paid, without deductions

R = Rate of tax or taxes paid

W = The employee's reportable wage

Determining PIT Wages

Please follow specific example as provided.

RATE TABLE

	2002	2003	2004
SDI ONLY	.0090	.0090	.0118
FICA ONLY	.0765	.0765	.0765
FICA & SDI	.0855	.0855	.0883

NOTE: The percentage rate used in the formula will change whenever the FICA or SDI tax rates change.

Wage and Tax Statement (Form W-2)

For purposes of the W-2, the state wages will include the increase discussed above based on your calculations. Also, the SDI paid should be shown on the W-2 as though the SDI amounts were actually withheld.

Voluntary Plan Disability Insurance

If the employer has an approved voluntary disability insurance plan (VPDI) in lieu of the SDI, the amounts paid into the plan by the employer do not constitute additional wages to the employee. The VPDI amount shown on the W-2 should be zero.

The following examples illustrate the different possible reporting calculation for employers.

Employer pays both the employee's share of FICA and employee's SDI

Example 1

Household or Agricultural Employers

Salary paid to your employee in the first quarter of 2003 is \$1,000.00. Payments made for FICA for your employees are not included when calculating UI, ETT, and SDI taxes. Therefore, to calculate **total subject wages** (wages subject to UI, ETT, and SDI), use the SDI rate (.0118 as shown in the RATE TABLE) and complete the calculation:

$$\$1,000.00 \div (1 - .0118) = \$1,011.94$$

To calculate **PIT wages**, use the FICA & SDI row in the RATE TABLE:

$$\$1,000.00 \div (1 - .0883) = \$1,096.85$$

*Includes Paid Family Leave (PFL) contributions beginning January 1, 2004.

Total subject wages of \$1,011.94 must be reported on the Quarterly Wages and Withholding Report (DE 6) or the Quarterly Report of Wages and Withholdings for Employers of Household Workers (DE 3BHW). PIT wages of \$1,096.85 must be reported on the DE 6 or DE 3BHW and included as wages on the employee's W-2.

Example 2

All Other Employers

Salary paid to your employee in the first quarter of 2003 is \$1,000.00. To calculate **total subject wages** (wages subject to UI, ETT, and SDI) and **PIT wages**, use the rate in the "FICA & SDI" row:

$$\$1,000.00 \div (1 - .0883) = \$1,096.85$$

Total subject wages of \$1,093.49 must be reported on the DE 6 or DE 3BHW. PIT wages of \$1,096.85 are subject to PIT withholding, must be reported on the DE 6 or DE 3BHW, and included as wages on the employee's W-2.

Employer pays employee's share of FICA only

Example 3

Household or Agricultural Employers

Salary paid to your employee in the first quarter of 2003 is \$1,000.00. Payments made for FICA for your employees are not included when calculating the UI, ETT, and SDI taxes. Therefore, the **total subject wages** are \$1,000.00.

To calculate **PIT wages**, use the FICA ONLY row in the RATE TABLE:

$$\$1,000.00 \div (1 - .0765) = \$1,082.84$$

Example 4

All Other Employers

Salary paid to your employee in the first quarter of 2003 is \$1,000.00. To calculate **total subject wages and PIT wages**, use the rate in the "FICA Only" row of the RATE TABLE:

$$\$1,000.00 \div (1 - .0765) = \$1,082.84$$

Total subject wages of \$1,082.84 must be reported on the DE 6 or DE 3BHW. PIT wages of \$1,082.84 are subject to PIT withholding, and must be reported on the DE 6 or DE 3BHW, and included as wages on the employee's W-2.

Employer pays the employee's SDI only

Example 5

For All Employers (including Household and Agricultural Employers)

Salary paid to your employee in the first quarter of 2003 is \$1,000.00. To calculate **total subject wages and PIT wages**, use the rate in the "SDI Only" row of the RATE TABLE:

$$\$1,000.00 \div (1 - .0118) = \$1,011.94^{***}$$

Total subject wages of \$1,011.94 must be reported on the DE 6 or DE 3BHW. PIT wages of \$1,011.94 must be reported on the DE 6 or DE 3BHW, and included as wages on the employee's W-2.

***For all employers except household and agricultural employers, PIT wages of \$1,011.94 are subject to PIT withholding.

References

The California Unemployment Insurance Code (CUIC) governs and defines reportable wages in California. Section 935 of the CUIC excludes from wages, for UI, ETT, and SDI purposes, payments made by household and agricultural employers for the employee's share of FICA. Section 926 of the CUIC governs all other employers when determining wages subject to UI, ETT, and SDI.

Household and agricultural employers are not required to withhold PIT from wages. However, these wages should be reported by the employees as taxable income on their personal income tax returns. Therefore, the employer is required to report the wages as PIT subject wages. Sections 13020, 13009, and 13009.5 of the CUIC govern PIT withholding and reportable PIT wages.

Additional Information

If you have any questions, you may visit your local Employment Tax Office (ETO) listed in the California Employers Guide, DE 44; you may call us at 1-888-745-3886 or visit our Web site at www.edd.ca.gov.

Speech and hearing-impaired persons can contact us by calling 1-800-547-9565.